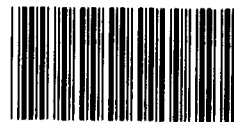


July 1991

OMB CIRCULAR A-76

Legislation Has Curbed Many Cost Studies in the Military Services



144497

General Government Division

B-244249

July 30, 1991

The Honorable Daniel K. Inouye
Chairman, Subcommittee on Defense
Committee on Appropriations
United States Senate

The Honorable John P. Murtha
Chairman, Subcommittee on Defense
Committee on Appropriations
House of Representatives

Conference report 101-938 of the Department of Defense (DOD) Appropriations Act for 1991 directs GAO to report on DOD's implementation of its Office of Management and Budget (OMB) Circular A-76 program. The conferees were concerned that DOD was taking too much time to do A-76 cost studies.

As agreed with the Subcommittees, our specific objectives were to determine (1) DOD's A-76 activity level, (2) the length of time DOD takes to complete A-76 cost studies, (3) the reasons for long cost-study times, (4) DOD's actions to shorten study times, (5) the number and cost of private-sector A-76 studies, and (6) DOD's response to our recent recommendations and those made by the DOD Inspector General (IG).

Background

OMB Circular A-76 established the policy guiding federal agencies in determining the most economical way to carry out their commercial activities. Examples of these activities include custodial services, data processing, and vehicle maintenance.

The circular requires agencies to review their commercial activities to determine whether it is more economical to retain the work in-house or to contract it out to the private sector. This review consists of the following major segments:

- preparation of a performance work statement that, among other things, describes the work required and serves as the basis for contractor bids; and
- a management study containing the government's estimate of the lowest number and types of employees required to do the functions described in the work statement—generally referred to as the “most efficient organization” (MEO)—that, along with other estimated costs associated

with in-house performance, will allow an agency to develop a total estimated cost for in-house performance.

The agency then compares the estimated in-house cost with private-sector contractor bids. A-76 cost studies call for awarding a contract to the contractor who is judged by the agency to be most capable of meeting all the government's quality, timeliness, and quantity standards, provided that (1) the total cost of the contract performance is less than the in-house bid, and (2) the margin of difference between the total cost of the contract performance and the in-house bid exceeds 10 percent of the personnel costs of the in-house bid. When a contract is awarded, the government work force is to be reassigned or terminated.

If the above conditions are not met, the activity is to be retained in-house and done by government civilian workers. Affected parties can file an appeal as a safeguard to help ensure that the decision is equitable and in accordance with A-76 procedures. OMB's Cost Comparison Handbook and DOD Instruction 4100.33 furnish guidance for implementing the A-76 program.

Over time, legislation has affected DOD's A-76 program. For example, a provision in the National Defense Authorization Act for fiscal years 1988 and 1989 (P.L. 100-180, Dec. 4, 1987) decentralized A-76 authority in the military services. The provision gave individual military installation commanders the authority and responsibility to determine, without approval from the services' headquarters A-76 officials, which A-76 commercial activities at their installations would be studied. This provision is commonly known as "the Nichols Amendment." Another law, the DOD Appropriations Act for 1991 (P.L. 101-511, Nov. 5, 1990), provided that funds appropriated under the act could not be used for single-function A-76 cost studies¹ exceeding 2 years in duration and multifunction studies² in progress over 4 years. The provision took effect May 5, 1991.

Approach

We obtained and analyzed DOD printouts showing cost studies in progress, those completed, and those cancelled or scheduled for cancellation. We obtained printouts showing the time the services took to

¹Single-function cost studies involve one activity, such as a laundry.

²Multifunction cost studies involve a combination of services, any one of which could be studied separately. For example, all activities that are components of an installation maintenance function could be combined in one multifunction cost study.

complete studies in fiscal years 1987 through 1990. We reviewed information in our previous reports and testimony and interviewed DOD officials to determine the factors affecting the length of time DOD took to complete cost studies.

We obtained listings of private-sector organizations involved in studies and the studies' costs. We also obtained and reviewed information on previous recommendations from DOD's A-76 data base, the Commercial Activities Automated Management Information System.

We concentrated our efforts on the military services—the Army, the Navy, the Air Force, and the Marine Corps (as opposed to the Defense agencies such as the Defense Logistics and Defense Mapping agencies)—because the services have done the greatest number of DOD's A-76 studies. Our work was done between February and June 1991, in accordance with generally accepted government auditing standards. Appendix I discusses our objectives, scope, and methodology in greater detail.

Results in Brief

Since fiscal year 1987, the military services' A-76 activity level declined drastically—from over 1,200 studies to about 115; a decline the services' A-76 officials attributed primarily to legislation. On December 31, 1990, DOD estimated that 328 of the services' 507 ongoing cost studies would be cancelled by May 5, 1991, because of the mandated time frames in the DOD Appropriations Act for 1991. The estimate was low. By May 5, 1991, the services had cancelled 394 of their ongoing studies. DOD and service officials said the Nichols Amendment and the mandated 2-year and 4-year study times were primarily responsible for the large reduction in overall A-76 activity.

The completion time for A-76 cost studies increased markedly—from an average of about 2 years for studies completed between October 1, 1978, and December 31, 1986, (as shown by our previous work)³ to an average of 4 years, 3 months in fiscal years 1987 through 1990. In fiscal year 1990, the services took an average of 4 years and 8 months to complete 53 cost studies, and 25 of these studies took 5 years or more to complete.

³Federal Productivity: DOD's Experience in Contracting Out Commercially Available Activities (GAO/GGD-89-6, Nov. 28, 1988).

Several factors caused delays in completing cost studies. In our November 1988 report and in testimony,⁴ we cited three key factors involved in lengthy studies. These factors were the absence of (1) a sufficiently high priority to ensure that cost studies move expeditiously to completion, (2) skills needed to prepare the statement of work, and (3) work load data needed to define work requirements in the function being studied. Service officials pointed out that these factors continue to hinder the completion of A-76 studies.

Service officials said they had few new approaches for shortening cost-study completion times because the current cost-study process is adequate. While the services have not addressed the root causes that lengthened past studies, they expected their remaining cost studies and any studies started in the future to comply with the law by being completed within these time frames.

The services seldom used private-sector organizations to do A-76 cost studies. During fiscal years 1987 through 1990, two of the four services—the Army and the Navy—used private-sector companies on a total of eight studies. In that 4-year period, the Army contracted with a private-sector organization for a portion of one of its studies, and the Navy had private-sector organizations participate in seven of its ongoing studies. The total cost of the eight private-sector efforts was \$866,355. Air Force and Marine Corps officials told us they do all their own cost studies.

Since October 1, 1988, we have issued two reports⁵ and testified twice⁶ on issues involving DOD's A-76 program. We made a total of eight recommendations to DOD to improve the information in its A-76 data base and capture A-76 program costs. DOD has taken corrective action in response to all eight of these recommendations. We could not evaluate DOD's corrective actions because sufficient time has not elapsed.

⁴Achieving Cost Efficiencies in Commercial Activities (GAO/T-GGD-90-35, Apr. 25, 1990).

⁵GAO/GGD-89-6, Nov. 28, 1988, and OMB CIRCULAR A-76: DOD's Reported Savings Figures Are Incomplete and Inaccurate (GAO/GGD-90-58, Mar. 15, 1990).

⁶A-76 Program Issues (GAO/T-GGD-90-12, Dec. 5, 1989), and GAO/T-GGD-90-35, Apr. 25, 1990.

During the same period, DOD's IG issued one report⁷ involving DOD-wide A-76 activities. DOD disputed one of the findings and some of the recommendations in the IG's July 5, 1990, report. Because of the time involved in resolving the dispute, DOD has initiated—but did not complete—the corrective actions.

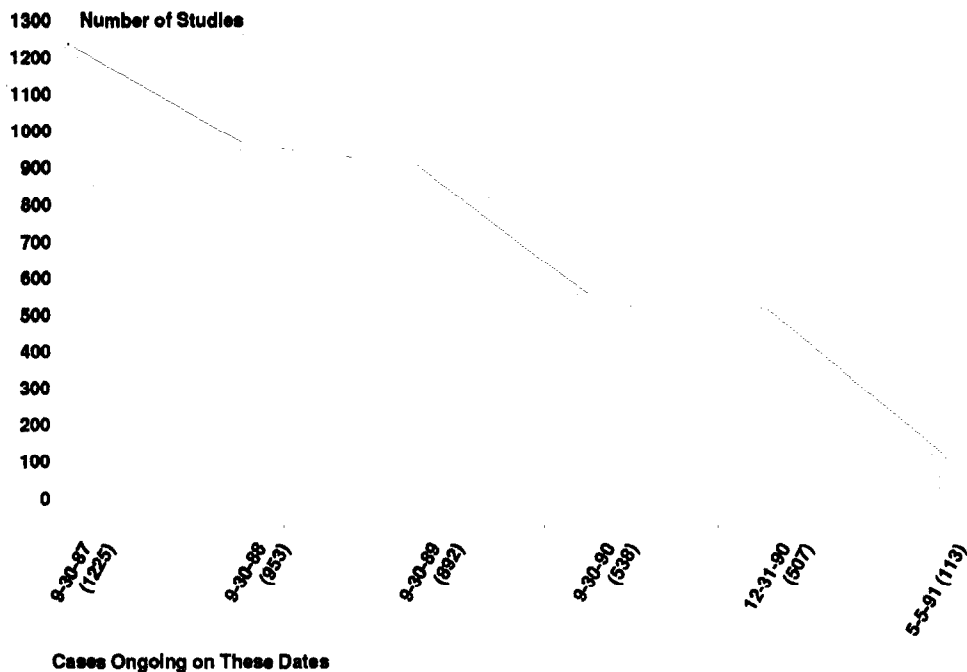
DOD's A-76 Studies Have Decreased

A-76 cost studies began to decrease in fiscal year 1988 when the Nichols Amendment first took effect. Service officials explained that fewer new studies started in fiscal year 1988 because installation commanders exercised their new authority over A-76 activities and chose not to start new studies when they were not convinced of the A-76 program's benefits. Service officials said that the decrease in cost studies resulting from the Nichols Amendment began almost immediately. While a total of 121 DOD studies were started in fiscal year 1987, 40 began in fiscal year 1988 after the amendment took effect.

In addition to reducing the number of new starts, on December 31, 1990, the services estimated that 328 of their 507 ongoing studies would be cancelled by May 5, 1991, because the studies were not expected to meet the mandated 2-year or 4-year completion time frames. The estimate was low; the services actually cancelled 394 studies, which left a total of 113 cost studies. This number is a marked contrast to the 1,225 studies ongoing as of September 30, 1987. DOD's A-76 official said the services had terminated the studies before they reached a final decision on whether to keep the functions in-house or contract them out. He also said the cancelled studies will result in retaining the functions in-house, using the MEO. He added that all of the cancelled studies will be candidates for restudy in the future. Figure 1 shows the decrease in DOD's ongoing cost studies from September 30, 1987, through May 5, 1991.

⁷Procedures for Monitoring Commercial Activities' Functions After Completion of A-76 Competitions (No. 90-096, Jul. 5, 1990).

Figure 1: Services' Ongoing A-76 Cost Studies



Source: DOD.

Cost Studies Took Longer to Complete Than in Previous Fiscal Years

In our 1988 report and 1990 testimony, we said that from October 1, 1978, through December 31, 1986,⁸ on average, DOD took about 2 years to complete 1,622 studies, and about 4 percent of these studies took 5 to 8 years. The 437 cost studies completed in fiscal years 1987 through 1990 averaged 4 years, 3 months to complete, and 133 studies (about 30 percent) were in process 5 years or more. Table 1 shows the average times DOD took to complete studies during the last 4 fiscal years and the number of studies in process 5 years or more.

⁸A total of 1,661 DOD cost studies were completed during this period, and data were available for 1,622.

Table 1: Studies Completed and Average Completion Times

Fiscal year	Completed studies	Average months to complete	Studies lasting 5 years or more	
			Number	Percent
1987	154	45	27	18
1988	159	53	39	25
1989	71	60	42	59
1990	53	56	25	47
Total	437		133	

Although it was not then a requirement, in these 4 fiscal years cost study completion times generally exceeded the 2- and 4-year time frames now mandated. The Army's and the Navy's multifunction studies averaged more than 4 years in process in all 4 fiscal years.

Of the 53 cost studies the services completed in fiscal year 1990, 42 took longer than the mandatory completion times that went into effect on May 5, 1991. A total of 12 of the 19 multifunction studies the services completed in that year were in process longer than 4 years, and 30 of the 34 single-function studies took longer than 2 years to complete.

Reasons for Lengthy Cost Studies

While we did not determine the specific reasons that extended the individual cost studies discussed in this report, our previous work has identified three key factors that caused lengthy cost studies. We found that time-consuming cost studies resulted from the following:

- There was a lack of sufficiently high priority on ensuring that cost studies moved quickly through the various points of review. A low priority was particularly evident if those called upon to review studies were outside the A-76 office or the studied function. For example, a study might have stayed with an attorney or a personnel specialist for some time while attention was given to higher priority work in attorney or personnel offices.
- There was a lack of necessary skills to prepare the work statement. Preparation of this document, which must precisely define the government's requirements, was often a collateral duty of employees in the function being studied. The frequent lack of staff with the necessary professional skills to lead cost studies contributed to the length of the completion time.
- There was a lack of work load data that had in some cases extended study times and contributed to poorly prepared work statements. When such data are missing, the A-76 cost-study process is lengthened, and

those doing the study must do much more work to determine what the activity being studied actually accomplishes. In December 1990, the President's Council on Management Improvement (PCMI) reported that it is not unusual for A-76 studies to require anywhere from 18 months to 2 or more years just to collect historical and performance data and to develop a competitive MEO.⁹

Service officials pointed out that these factors have continued to lengthen cost studies. For example, an Army A-76 official said that the Army's IG reported in 1989 that the Army's cost studies were lengthy because installation commanders did not view the A-76 program as having a high priority and therefore did not emphasize the program's importance. Further, the Navy A-76 headquarters official said compilation of work load data and review by an installation's attorney are two usual points where cost studies are delayed.

Services' Efforts to Shorten Cost Study Times

Service officials said they are not planning any policy changes and have few new approaches for shortening cost-study completion times because they believe the current process is adequate. The Army does plan to help its future studies meet the mandated time frames. According to the Army's headquarters A-76 officials, in summer 1991, the Army plans to institute milestone management in its A-76 program. Under this new approach, any deviation from the study-plan milestones for accomplishing each task in a study must be approved by the installation commander and the command's chief of staff. Previously, Army study teams could change milestones without such high-level approval.

The Navy, in a message to its installation A-76 staffs dated December 15, 1990, queried all of its base A-76 officials for ways to shorten study times. A Navy official said the request did not result in workable suggestions for reducing the Navy's cost-study times.

An Air Force A-76 official said his staff has taken the following actions in an attempt to help shorten the time to complete cost studies:

- development of an automated cost-study computation program that the Air Force plans to have operational in October 1991,
- establishment of a central data base of work statements that Air Force officials hope will facilitate the development of future work statements, and

⁹Study of OMB Circular A-76: Performance of Commercial Activities (Dec. 1990).

-
- formation of a team composed of representatives across the Air Force that will address streamlining the Air Force's A-76 program.

The Marine Corps A-76 official pointed out that the few remaining studies will require no new approaches to meet the mandated time frames.

DOD and service officials said that the 113 cost studies remaining after cancellations and those started in the future will be expected to be completed within the 2- and 4-year time frames.

Few Private Sector Organizations Have Been Involved in Cost Studies

During fiscal years 1987 through 1990, the Army had a private-sector organization do parts of one of its studies, and the Navy had seven studies done or partially done by the private sector. The cost of the contracted work totaled \$866,355.

Army headquarters A-76 officials said they prefer that installations use their own staff to do A-76 studies "to ensure the quality and timeliness of the study effort." Navy headquarters A-76 official said the Navy is reluctant to have private-sector involvement in cost studies because the expertise learned during the study would not be retained at the installation. They said this preference for ensuring quality and timeliness and the need to retain expertise were the reasons the number of contracted studies was low. Both services said the lack of available in-house staff to do the studies was a reason why they had private-sector contractors participate in the eight cost studies. Some Navy installation officials said they used a private-sector organization because these officials believed a contractor would be more experienced and better prepared to do cost studies than in-house staff. Air Force and Marine Corps A-76 officials said they always do their own cost studies, without help from the private sector.

Results were mixed when private-sector organizations participated in cost studies. Some installation officials said their studies benefited from involving the private sector because the contractors had done the work well. Others said they would not contract out the work in future studies because of the problems they encountered, such as the poor quality and high costs of the contractors' work. Appendix II lists the private-sector organizations that have worked on cost studies and the costs of private-sector participation.

DOD's Response to GAO's and DOD IG's Recommendations on A-76

Since October 1, 1988, we have issued two reports and testified twice on the DOD-wide A-76 program. We made a total of eight recommendations for improvements in the DOD-wide A-76 program. DOD has taken corrective actions on all eight of these recommendations. At the time of this review, it was too early to determine the effectiveness of these actions. Our recommendations and their status are provided in appendix III.

DOD's IG issued one report on the DOD-wide A-76 program since October 1, 1988. The July 5, 1990, report contained six overall recommendations aimed at (1) revising DOD's A-76 instruction to improve policies and procedures for managing the A-76 program, (2) making changes in certain A-76 contracts, and (3) increasing the number of A-76 studies in the services.

Officials in the Office of the Assistant Secretary of Defense for Production and Logistics disagreed with one of the findings in that report and the recommendations that included revising DOD's A-76 procedures. DOD officials contended that existing procedures provide sufficient guidance for dealing with contractors when performance is inadequate.

The disagreement was discussed by officials in the offices of the Assistant Secretary of Defense for Production and Logistics and the IG. In February 1991, the officials and the IG decided it was not necessary to revise DOD's A-76 procedures. DOD started taking actions to respond to the recommendations.

Conclusions

DOD's A-76 activity has significantly decreased. Officials attributed the decrease primarily to legislation that has affected DOD's A-76 program. The total number of cost studies in process decreased from 1,225 cost studies as of September 30, 1987, to 113 on May 5, 1991.

It remains to be seen whether the services will be successful in meeting the new time frame requirements established by the DOD Appropriations Act for 1991. About 80 percent of the services' cost studies completed in fiscal year 1990 took longer than the new time frames, and the services have not corrected the underlying causes that contributed to the length of these studies. However, it is possible that the reduced number of studies and the DOD Appropriations Act's time limitations could result in the services more expeditiously completing cost studies in the future.

Agency Comments

We discussed a draft of this report with officials from DOD and the services, and they generally agreed with the information. They suggested certain technical changes that we have incorporated where appropriate.

As agreed, we are sending copies of this report to other appropriate congressional committees and Members; the Secretary of Defense; the Secretaries of the Army, the Navy, the Air Force; and other interested parties. Copies will be made available to others upon request.

Major contributors to this report are listed in appendix IV. Please contact me at (202) 275-8676 if you or your staff have any questions concerning the report.

A handwritten signature in black ink, reading "L. Nye Stevens". The signature is fluid and cursive, with a long horizontal stroke at the end.

L. Nye Stevens
Director, Government Business
Operations Issues

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Abbreviations

DOD	Department of Defense
IG	Inspector General
MEO	Most Efficient Organization
OMB	Office of Management and Budget
PCMI	President's Council on Management Improvement

Objectives, Scope, and Methodology

This report was done in response to a directive in conference report 101-938 of the DOD Appropriations Act for 1991 (P.L. 101-511). As agreed with the Subcommittees, our objectives were to determine (1) DOD's A-76 activity level, (2) the length of time DOD takes to complete A-76 cost studies, (3) the reasons for long cost-study times, (4) DOD's actions to shorten study times, (5) the number and cost of private-sector A-76 studies, and (6) DOD's response to our recent recommendations and those made by the DOD IG.

To determine DOD's A-76 activity level, we requested and analyzed DOD printouts showing the number of studies ongoing and cancelled as of December 31, 1990, and May 5, 1991. To determine how long services currently take to do cost studies, we obtained and reviewed DOD printouts showing completion times for studies completed in fiscal years 1987 through 1990. Because of the requirement to provide a report by July 31, 1991, we did not independently verify the computer printouts DOD provided.

To determine reasons for long cost-study times, we reviewed information in our previous reports and testimony and interviewed DOD officials. We interviewed DOD and the services' A-76 officials to determine DOD's actions to shorten studies. Because the majority of the cost studies discussed in this report have been cancelled, and because service officials informed us that the reasons we previously cited continued to exist, we did not do the additional work necessary to determine the specific factors extending these studies. Instead, we relied on our previous work and discussions with service officials.

To determine the private-sector organizations' involvement in the services' cost studies, we interviewed service A-76 officials. We also obtained and reviewed listings of the private-sector organizations and the cost of the studies. The information in these lists covered fiscal years 1987 through 1990.

To determine DOD's response to our recommendations and those of the DOD IG, we obtained and reviewed data from DOD's A-76 data base, the Commercial Activities Automated Management Information System, and interviewed the GAO liaison in DOD's Office of IG.

We discussed the results of our work with officials from DOD and the services' A-76 offices and incorporated their comments where appropriate. We concentrated our efforts on the services—the Army, the

Navy, the Air Force, and the Marine Corps—because they had done most of DOD's A-76 cost studies.

We did our work between February and June 1991 in accordance with generally accepted government auditing standards.

Private-Sector Contractors Involved in Cost Studies

Contractor	Contract period	Contract cost
Army		
Jack Donovan	3-90 - 5-90	\$25,000
Navy		
Management Analysis, Inc.	4-87 - 1-88	205,000
Management Analysis, Inc.	8-87 - 12-90	229,000
Technology Management Corp.	12-87 - 5-89	81,700
E. L. Hamm and Associates	1-89 - 3-90	53,616
Management Analysis, Inc.	4-89 - 12-89	169,306
Management Analysis, Inc.	8-89 - 11-90	50,438
Management Analysis, Inc.	1-90 - 6-90	52,295
Total		\$866,355

Source: Army and Navy A-76 Offices.

GAO Recommendations and Status

Recommendations

Our March 1990 recommendations involved improving the information in DOD's A-76 data base and capturing A-76 program costs. We said that to make these improvements, the Secretary of Defense should do the following:

- Make DOD components responsible for estimating the original cost of activities being studied by calculating with standardized budgetary and actual cost information, rather than a formula; these cost figures should then be used to compute and report savings.
- Improve DOD's ability to analyze cost changes that occur after cost studies are completed by requiring DOD's A-76 office to collect information on
 - reasons for contract cost changes and related dollar amounts,
 - estimated contract administration costs (baseline costs), and
 - MEO costs (activity costs after MEO is implemented).
- Report to OMB actual MEO costs, as required.
- Change DOD reporting instructions to require the services to report in-house organization bids for all completed cost studies.
- Reduce errors in DOD's A-76 data base by directing the Secretaries of the Air Force, the Army, and the Navy to ensure that there are comprehensive edits on A-76 data at the point where data are initially entered into a computerized system.
- Increase the emphasis on correcting data errors in the DOD A-76 data base as soon as they are found by error identification programs.
- Change the procedure for calculating total A-76 savings for a fiscal year by summing savings across studies and deleting the portion of the computer program currently used to produce the annual estimated savings total in order to avoid the possibility of errors in reported information.
- Design and pilot test an approach for reliably measuring A-76 program administration costs at DOD, with OMB monitoring the effort's progress.

DOD's Response

DOD has responded to these recommendations by taking the following actions:

- changing its reporting system to require its components to provide the original cost of studied activities, rather than using a formula;
- collecting and reporting data on MEOs and tracking actual contract costs to compare with both projected savings and cost of doing the work in-house;
- modifying its A-76 instructions to make its components responsible for editing their A-76 data when these data are first entered into the system;

-
- directing its components to calculate savings on a study-by- study basis, rather than using computer-generated estimates; and
 - designing a system to capture program administration costs.

These actions, if properly carried out, will comply with the intent of our recommendations. However, we cannot determine the efficacy of DOD's actions because sufficient time has not elapsed since the actions began.

Major Contributors to This Report

General Government
Division, Washington,
D.C.

William Engel, Assistant Director, Government Business Operations
Issues
Nancy A. Patterson, Evaluator-in-Charge
Katharine Cunningham, Evaluator

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